Ex. 3

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION



INTERSTATE POWER COMPANY DOCKET NO. 00-0261

APPLICATION FOR APPROVAL
OF MERGER AND REORGANIZATION

SUPPLEMENTAL DIRECT TESTIMONY OF
DANIEL DOYLE

I. <u>INTRODUCTION</u>

**Q. Please state your name and business address.**

A. My name is Daniel A. Doyle. My business address is 222 West Washington Avenue, Madison, Wisconsin 53703.

**Q. Are you the same Daniel A. Doyle that previously filed Direct Testimony in this docket?**

A. Yes.

**Q. What is the purpose of your supplemental testimony?**

A. My testimony will address the authority of the Illinois Commerce Commission under Section 220 ILCS 5/7-204(c) as it relates to the merger of Interstate Power Company ("IPC") and IES Utilities Inc. ("IES").

**Q. What specific provisions of Section 220 ILCS 5/7-204(c) will your supplemental testimony address?**

A. I will address both parts of Section 220 ILCS 5/7-204(c). That section provides:

> The Commission shall not approve a reorganization without ruling on: (i) the allocation of any savings resulting from the proposed reorganization; and (ii) whether the companies should be allowed to recover any costs incurred in accomplishing the proposed reorganization and, if so, the amount of costs eligible for recovery and how the costs will be allocated.

**Q. Has an estimate of the net present value of the estimated savings to be realized from IPC/IES merger?**

A. Yes. Our present estimate is that we will realize $2.7 million of savings on a net present value ("NPV") basis during the first 10 years of post-merger operations, applicable to the gas and electric operations of IES and IPC in Iowa and Illinois. Page 1 of the attached Exhibit No. 4 (DAD-2) is a spreadsheet that displays the calculation of the merger's savings on an NPV basis. Page 2 of that exhibit breaks out the components of the $2.7 million estimate including the costs to achieve those savings.

**Q. Will certain administrative functions of IES and IPC be consolidated in order to reduce non-labor corporate and administrative expenses?**

A. Yes. We expect to achieve about $60,000 of reduced corporate and administrative expenses. These cost reductions are expected to come from lower system costs in connection with having to close, run reports, maintain books, etc., for one less company. In addition, we expect to need fewer load research meters for measuring demands since we will only need to sample 1 company versus 2 and, as a result, reduced maintenance contracts.

Q. **Will the number of employees currently employed be reduced as a result of the merger?**

A. The merger is expected to have a minor impact on the number of employees. We estimate the amount of reduced cost will be approximately $120,000, or about 3 full-time equivalents. Those position reductions are anticipated to come from one less position in Data Acquisition, one less person in our warehouses, and less overall time needed to manage our inventory levels. We would expect the reductions to take place within six months after the merger is completed.

Q. **Please identify what transition costs (e.g., retention costs, severance costs) are estimated.**

A. We estimate that the costs to achieve the merger will be approximately $550,000. This amount includes estimated regulatory approval costs of $100,000, system conversion costs of approximately $420,000 and severance costs of approximately $30,000. In addition, it is estimated that we will incur additional transportation costs of $100,000 per year because of adding delivery routes between distribution centers and use centers.

Q. **Has an estimate of the amount of the NPV of the merger savings to be allocated to Illinois customers been prepared?**

A. Yes. We estimate that $.006 million of the $2.7 million NPV would properly be allocated to Illinois gas customers.

Q. **Why doesn't your answer address savings for IPC's Illinois electric customers?**

A. It is my understanding that under the restructuring statute adopted in 1997, IPC does not need ICC approval to merge or dispose of its Illinois electric properties. In other words, the only reason that this application was filed with the Commission is because IPC's gas properties in Illinois are affected. Nevertheless, page 3 of Exhibit No. 4 (DAD-2) contains an allocation on the $2.7 million NPV of the merger savings to all jurisdictions, including $.051 million to Illinois electric customers.

Q. **Does IPC believe it is necessary for the Commission to order any specific resolution of the savings in approving the IPC/IES merger?**

A. No. The statute instructs the ICC that in approving a merger it must rule on "the allocation of any savings resulting from the proposed reorganization". In IPC's view all that is required is that the Commission approve the allocation results as contained on page 3 of Exhibit No. 4 (DAD-2). Additionally, the average annual amount of the savings that would be allocated to Illinois gas customers ($600 per year) is so small that IPC's base gas rates would not change.

Q. **Does IPC seek authority to recover any of the costs "incurred in accomplishing the proposed reorganization"?**

A. No. Again since the financial impact on IPC's Illinois gas customers is so small, IPC is waiving any rights under Section 220 ILCS 5/7-204(c) to collect the costs of this reorganization from its Illinois ratepayers. Additionally, as a part of the Alliant Energy merger (ICC Docket No. 96-0122), IPC agreed to a three year rate freeze for its Illinois retail customers. This rate freeze does not expire until April, 2001.

Q. **Will IPC's Illinois gas customers receive any benefits from the IPC/IES merger?**

A. Yes. IPC and IES both use the Northern Natural Gas Company ("NNG") for pipeline transportation services to serve their retail gas customers. At the present time NNG has not allowed IPC and IES to combine their purchases from NNG. After the IPC/IES merger is effective, IES and IPC will be able to combine their NNG purchases, after the existing contracts expire in 2003. This should lead to a reduction in billings from NNG. Under the current Contract levels, the Applicants estimate that this would result in monthly savings of $350 or $4,200 annually. In addition, the merger would allow one less delivery zone for scheduling IES and IPC Zone D deliveries for NNG. The use of one zone would allow some savings due to more efficient scheduling and deliveries.

Q. **Has an estimate of the savings attributable to combining IPC's and IES's NNG purchases been prepared?**

A. No. The $2.7 million NPV study does include any savings associated with combining IPC's and IES's NNG purchases. Any savings related to NNG purchases will be automatically passed through to retail customers through the purchase gas adjustment clause.

Q. **Does this conclude your supplemental direct testimony?**

A. Yes.